



Fiscal Year 2002/2003 Budget Workshop

Tuesday, May 21, 2002

City Council Chambers

Summary

- ◆ **First year of operating cycle**
- ◆ **Second year of project cycle**
- ◆ **All funds balanced to the 20th year in spite of economic challenges**
- ◆ **Sunnyvale strategy of long-range financial planning protects high level of services**

Today's Workshop

- ◆ Intended to provide an overview of the recommended budget and budget process
- ◆ Highlight the budget process as a key component of our strong financial system

Presentation Topics

- ◆ The Sunnyvale approach to budgeting
- ◆ Overview of FY 2002/2003 Budget
- ◆ Future Fiscal Issues
- ◆ Strategic Issues
- ◆ Review of funds

Presentation Topics

- ◆ **New Projects**
- ◆ **Strategies for Continued Success**
- ◆ **Closing Message**

The Sunnyvale Approach

The Sunnyvale Approach

- ◆ Citizens have come to expect high quality services provided in an efficient manner





CITY
OF
SUNNYVALE

A photograph of the Sunnyvale Public Library building. The building is a modern structure with a dark, sloped roof and a light-colored wall. The name "SUNNYVALE PUBLIC LIBRARY" is mounted on the wall. In the foreground, there is a large, leafy green tree on the left, a concrete sidewalk, and a grassy area. To the right of the tree, there are some bushes and a flower bed with yellow flowers. The sky is blue with some light clouds.

SUNNYVALE
PUBLIC LIBRARY



The Sunnyvale Approach

- ◆ **Council leadership, shared vision and commitment at all levels of the organization enables us to carry out our mission**

The Sunnyvale Approach

- ◆ **Key elements of Sunnyvale's Planning and Management System:**
 - Long-range strategic planning
 - Short-term allocation of resources
 - Long-term financial planning
 - Performance reporting and evaluation
 - Council study issues process

The Sunnyvale Approach

- Long-range strategic planning
 - The General Plan provides a desired vision of our community
 - Sunnyvale's budget implements the seven elements of the General Plan.

The Sunnyvale Approach

- **Short-term allocation of resources:
the two-year budget**
 - **Identifies immediate revenues and
expenditures**

The Sunnyvale Approach

- **Short-term allocation of resources:
the two-year budget**
 - **Council decides on the outcomes
staff is to provide to the community**
 - **Resources are allocated to meet
these outcomes**
 - **Council focuses on policy and
outcomes**
 - **Staff focuses on achievement**

The Sunnyvale Approach

- Short-term allocation of resources:
the two-year budget
 - Outcome Management
 - Why?
 - What?
 - How?
 - How well?

The Sunnyvale Approach

- **Short-term allocation of resources:
the two-year budget**
 - **Advantages of two-year budgeting**
 - Maximizes staff time
 - In-depth review of budget elements
 - Focus on actual service delivery,
continuous improvement and Council
study items

The Sunnyvale Approach

- Long-term financial planning
 - Ten-Year Resource Allocation Plan, with twenty-year financial plan
 - Framework for developing long-range financial strategies

The Sunnyvale Approach

- Long-term financial planning
 - Decision makers better understand the long-term effects of their decisions
 - Assures long-term financial stability and prevents wild swings in service levels

The Sunnyvale Approach

- **Successes of our long range planning system**
 - **New senior center**
 - **Low utility rates**
 - **Reorganization of Patent Library**



The Sunnyvale Approach

- **Benefits of Sunnyvale's approach to City Council**
 - **Allows focus on policy issues and outcomes**
 - **Allows the achievement of tangible results that correspond to the community's priorities**

The Sunnyvale Approach

- **Benefits of Sunnyvale's approach to Citizens and Customers**
 - Know exactly what outcomes are provided
 - Can see a return for their tax dollars and fees/rates
 - Results in high customer satisfaction

The Sunnyvale Approach

- **Benefits of Sunnyvale's approach to City Staff**
 - **Given the flexibility to use resources effectively**
 - **Able to focus on achieving results**
 - **Empowered to seek innovative solutions to meet service outcomes**

The Sunnyvale Approach

- **Results of Sunnyvale's approach**
 - **Long-term financial stability**
 - **No service reductions or layoffs during downturns**

The Sunnyvale Approach

- ◆ Long range planning and financial forecasting mechanisms allow us to deal with tomorrow's problems today

Budget Process

Operating Budget Process

- ◆ First year of 2-year operating budget
- ◆ Review of all elements of operating budget
- ◆ Rental Rates and Additives adjusted

Operating Budget Process

- ◆ Salaries adjusted based on MOUs and future agreements
- ◆ Major cost components updated
- ◆ Major revenues updated

Project Budget Process

- ◆ “Off-year” for Project Budget
- ◆ Reviewed only new or significantly changed projects
- ◆ Project Review Committee evaluated new projects

Budget Overview

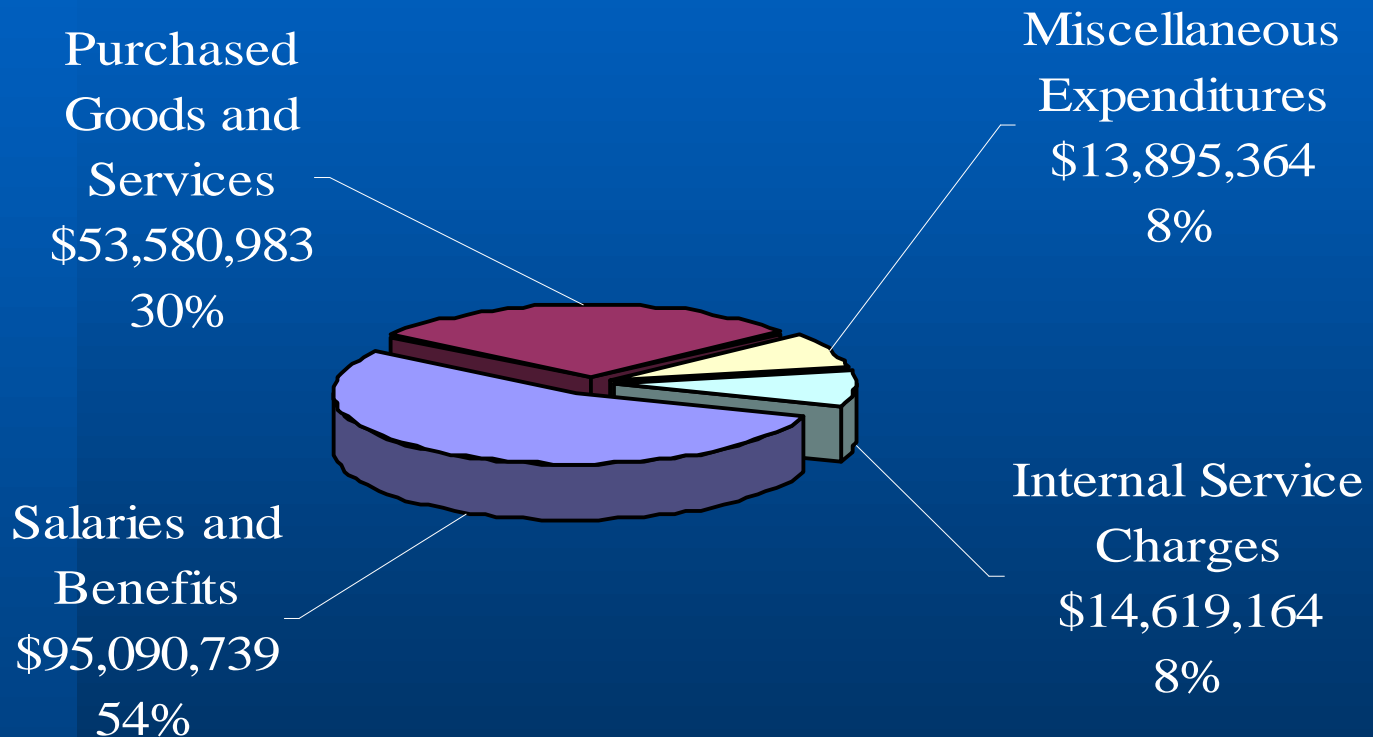
Budget Overview

- ◆ Total budget is \$214 million
- ◆ Operations portion is \$155 million
- ◆ Operations is 5.31% higher than current budget

Budget Overview

- ◆ **Components of 5.31% increase in operating budget:**
 - **Salaries and benefits**
 - **Internal service charges**

Operating Expenditures by Character - All Funds*



*Excludes internal service fund operating budgets.

Future Fiscal Issues

Future Fiscal Issues

- ◆ **Economic Condition of Sunnyvale, Silicon Valley region and State of California**
- ◆ **State budget situation**

Economic Conditions

- ◆ **Top of recent economic boom in FY 2000/2001**
- ◆ **National economy decelerated in mid-2000**
- ◆ **Silicon Valley began slowdown in early 2001**

Economic Conditions

- ◆ **Dot.com bust resulted in higher unemployment**
- ◆ **Lower personal income and wealth due to declining stock values**
- ◆ **Lower demand for high-tech products**

Economic Conditions

- ◆ Economists say the downturn has hit bottom and is stabilizing
- ◆ Primary question is projected pace of recovery
- ◆ Technology boom was a “bubble” that will not be repeated
- ◆ Recovery will be slow and deliberate

State Budget Crisis

- ◆ State budget deficit now \$22 billion by end of FY 2002/2003
- ◆ State revenues in sharp decline due to decreases in personal income tax revenues
- ◆ State spending doubled in 8 years
- ◆ State has structural imbalance

State Budget Situation

- ◆ **May Revision issued May 14**
- ◆ **Cities lose \$124 million**
- ◆ **Motor Vehicle License Fee backfill not touched, but fee raised**
- ◆ **Losses to City in several areas**

State Budget Crisis

- ◆ **Booking fee reimbursement: \$200,000 annually**
- ◆ **3.5% loss in RDA tax increment**
- ◆ **Public Library Foundation cut**
- ◆ **State mandate reimbursements deferred: \$100,000**

State Budget Crisis

- ◆ General Fund loss \$300,000
- ◆ Reduce Fiscal Uncertainties by \$300,000
- ◆ Effect on RDA programs, loan
- ◆ Cuts supplemental library programs
- ◆ Unclear if this is all for cities

Other Future Fiscal Issues

- ◆ **Neighborhood Preservation and Code Enforcement**
- ◆ **Public Facilities Workspace Issues**
- ◆ **Homeland Security**

Other Future Fiscal Issues

- ◆ **Neighborhood Preservation and Code Enforcement**
- ◆ **Pilot program for proactive, neighborhood based enforcement**
- ◆ **May seek additional resources in future years**

Other Future Fiscal Issues

- ◆ **Public Facilities Workspace Issues**
- ◆ **Short-term solutions: use of Sunnyvale Office Center**
- ◆ **Long-term options range from \$69-90 million**
- ◆ **Need to identify ways to finance new construction or modernization**

Other Future Fiscal Issues

- ◆ Homeland Security needs may require additional funding
- ◆ Federal government funding promised but no clear idea of allocation methods or amounts

Strategic Issues

Strategic Issues

- ◆ Investment in City Workforce
- ◆ Organizational Effectiveness Initiative
- ◆ Development Activity
- ◆ Service Level Pressures
- ◆ Quality of Life Initiative

Development Activity

- ◆ Construction activity peaked in FY 2000/2001
- ◆ Sustainable at 50% of peak
- ◆ Sunnyvale still attractive to technology sector
- ◆ Moffett Park Specific Plan
- ◆ Downtown Design Plan

Service Level Pressures

- ◆ Increased demand due to increasing population
- ◆ Revenue base growth does not meet the increasing demands

Break

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Review of Funds

General Fund



General Fund Overview

- ◆ **Total expenditures of \$97 Million**
 - Up 1.96%
- ◆ **Operating expenses of \$89 Million**
 - Up 6.41%
- ◆ **Project costs of \$5.6 million**

General Fund Expenditures

- ◆ Operating expenditures make up 91% of General Fund
- ◆ Operating costs up 6.41% from last year, due to:
 - Increased salaries and benefits
 - Increased internal service costs

General Fund Expenditures

- ◆ Salaries and benefits up 8%
- ◆ All current salaries and MOUs reflected
- ◆ Effect of moving to market-competitive compensation
- ◆ Benefits up almost 15%

General Fund Expenditures

- ◆ Internal Service Charges up, especially in Technology Services
- ◆ Increase in hours for Human Resources Department

Budget Supplements

◆ Expanded Public Safety Recruitment

- \$2 million per year for two years
- Goal of 30 new successfully trained recruits
- Additional Public Safety Field Training Lieutenant hours for the same two-year period

Budget Supplements

- ◆ **Additional Performance Auditor**
- ◆ **Increased Traffic Calming Efforts**
- ◆ **Recruitment Video for Boards and Commissions Program**
- ◆ **Increased Fee Waiver Program for Leisure Programs**

General Fund Projects

New Projects Recommended:

- ◆ **Mary Avenue 280 Footbridge**
- ◆ **Evelyn Avenue Bike Lanes from Bernardo Ave to Sunnyvale Ave**
- ◆ **Connecting North and South Sunnyvale for Bicyclists**
- ◆ **Awahnee Ave Soundwall Landscape**

General Fund Projects

- ◆ **Supervisory/Managerial Development in Public Safety**
- ◆ **City Property Acquisition Related Activity**
- ◆ **Printing of City Publications in Multiple Languages**
- ◆ **Optimal Public Safety Staffing Study**

General Fund Projects

Revised Projects for FY 2002/2003:

- ◆ Lawrence Expressway and Wildwood Ave
- ◆ Fair Oaks Ave and Iris Ave Traffic Signal
- ◆ Lawnmower Buyback Program
- ◆ Cherry Chase Sports Field Renovation

General Fund Projects

- ◆ Lakewood Park Recreation Facilities Improvement
- ◆ De Anza Park Sports Field Irrigation Renovation
- ◆ San Francisco Bay Trail - Yahoo!

General Fund Revenues

- ◆ Annual review and revision
- ◆ Forecast methodology based on unique characteristics of each revenue
- ◆ Twenty-year projections utilize average historic trends over a defined economic cycle

General Fund Revenues

- ◆ Revenue forecasting project with the Center for the Continuing Study of the California Economy
- ◆ Focused on six major revenue sources that make up 90% of General Fund
- ◆ Several key changes in assumptions

General Fund Revenues

- ◆ Separate forecasts for revenue growth from inflation versus “real” growth to revenue base
- ◆ Greater revenue growth in first ten years of plan than second ten years due to demographic trends

General Fund Revenues

- ◆ Also revised estimates for FY 2001/2002 to reflect current economic conditions
- ◆ \$8.7 million reduction overall
- ◆ Sales Tax down 30% from last year
- ◆ Transient Occupancy Tax down 40%

General Fund Major Revenues

- ◆ Sales Tax
- ◆ Property Tax
- ◆ Utility Users Tax/Franchise Fees
- ◆ Motor Vehicle License Fees
- ◆ Transient Occupancy Tax
- ◆ Construction-related Revenues

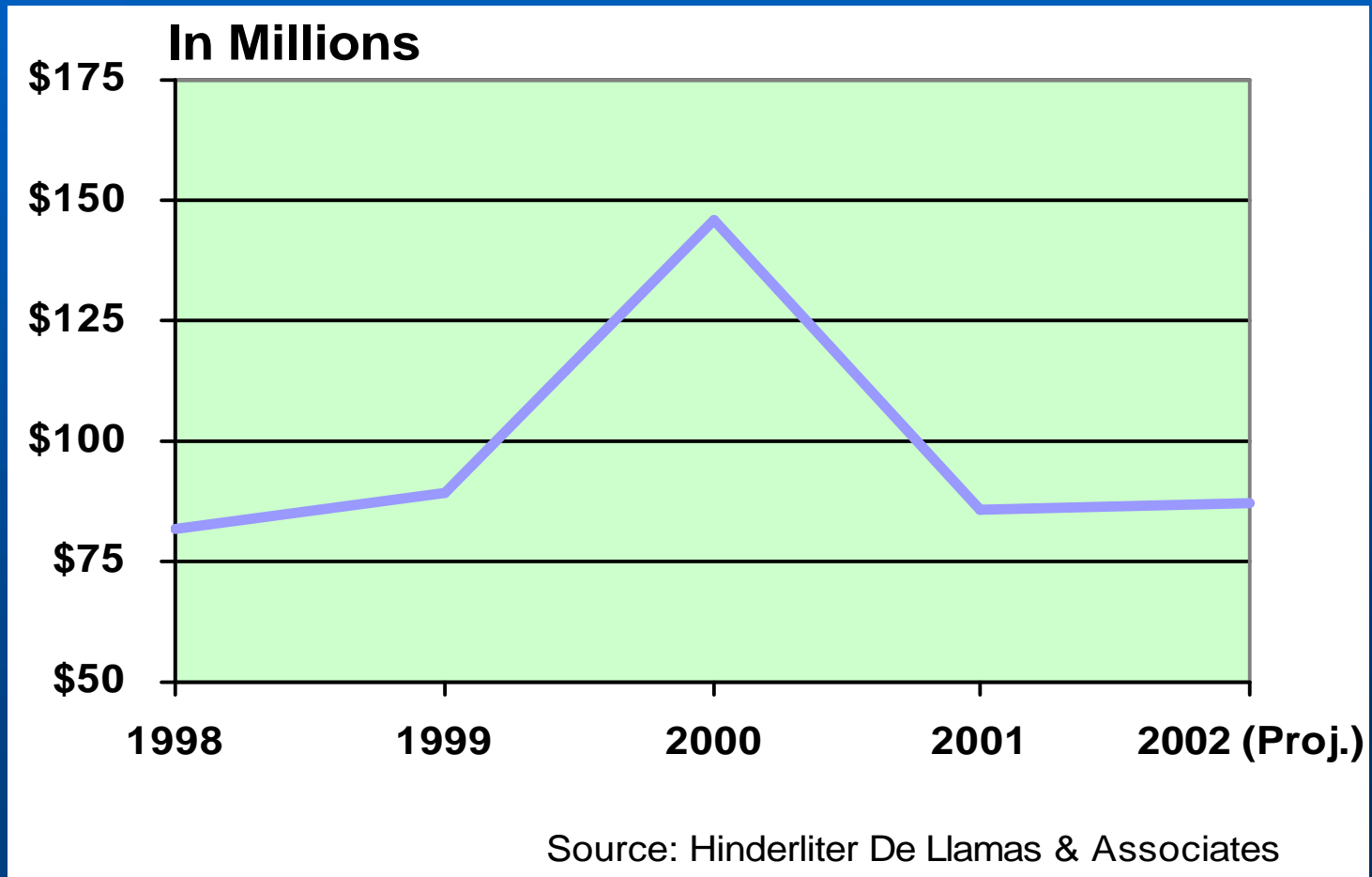
General Fund Major Revenues: Sales Tax

- ◆ Largest source of General Fund revenue (28%)
- ◆ Composed of retail and business-to-business sales; latter has declined significantly
- ◆ Revised estimate for FY 2001/2002 down 30%, or \$11.2 million due to downturn and misallocations

General Fund Major Revenues: Sales Tax

- ◆ Three fundamental questions to be answered in forecasting future Sales Tax revenues:
 - Actual underlying Sales Tax base
 - When will we return to base
 - What will be rate of recovery

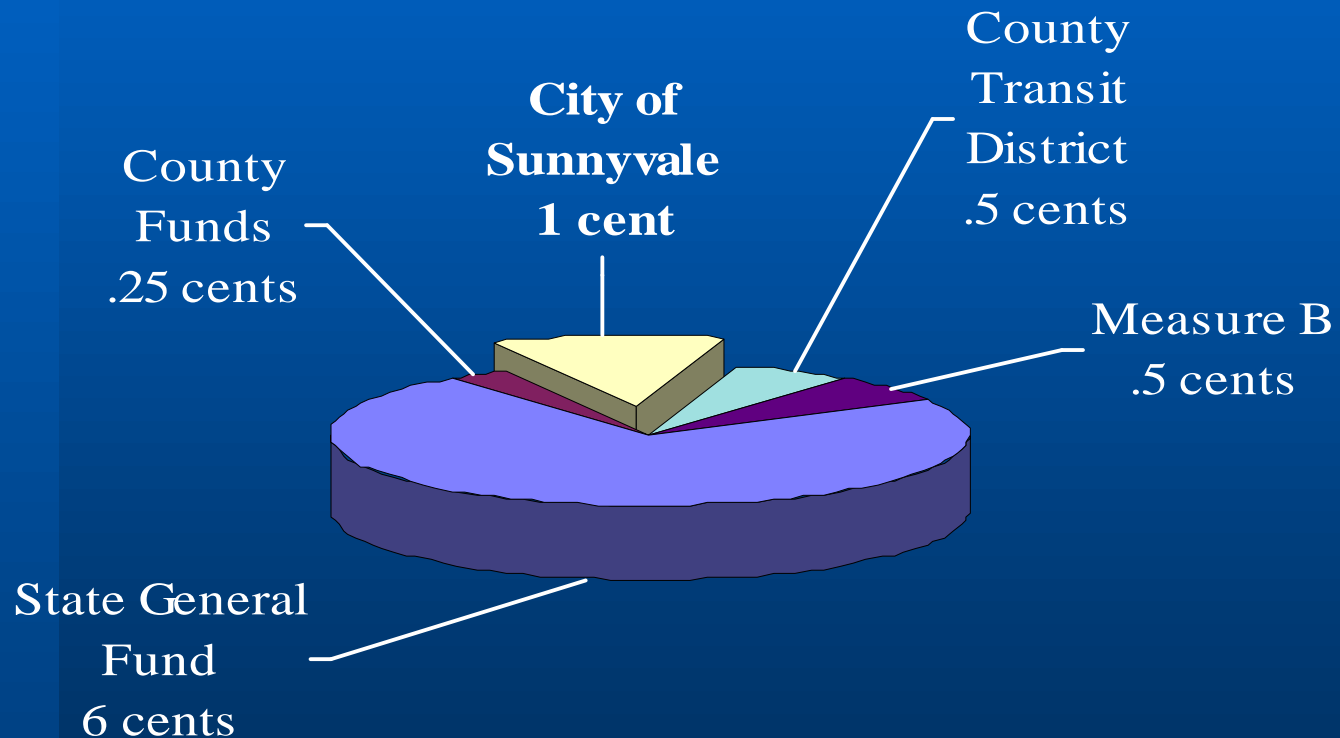
Sunnyvale Sales Tax for Business and Industry



General Fund Major Revenues: Sales Tax

- ◆ Questions of when recovery occurs and rate of return
- ◆ Rebound will occur mid 2003
- ◆ Recovery will be slow and measured
- ◆ Full recovery FY 2005/2006

8.25-Cent Sales Tax Distribution Santa Clara County

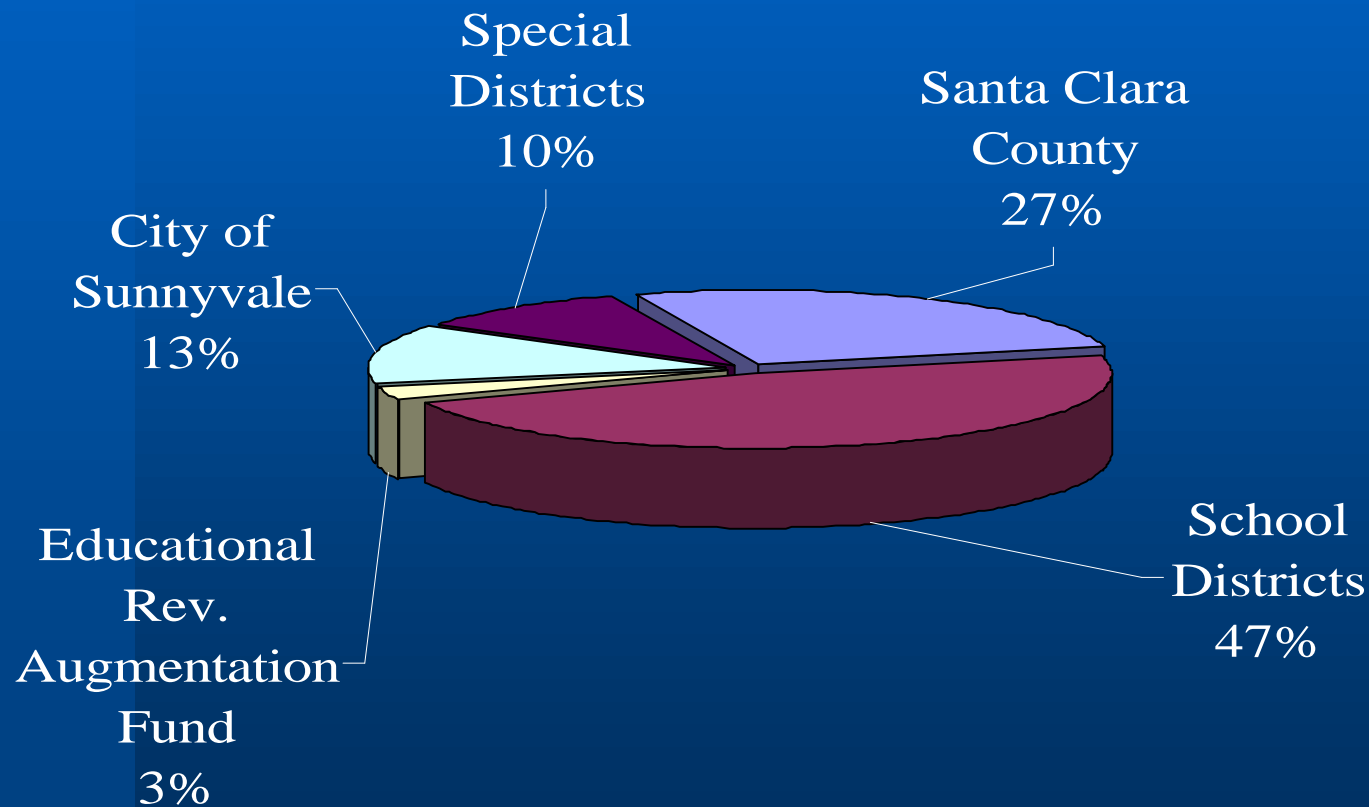


Source: State Board of Equalization

General Fund Major Revenues: Property Tax

- ◆ Represents 24% of General Fund revenues
- ◆ Current year 11% higher
- ◆ Receipts lag economic cycles due to delays in assessment process
- ◆ FY 2002/2003 forecast flat to reflect economic slowdown, appeals

Property Tax Distribution



General Fund Major Revenues: UUT and Franchise Fees

- ◆ Utility Users Tax and Franchise Fees equal 12% of General Fund revenues
- ◆ UUT level in FY 2001/2002
- ◆ Franchise Fees up 16% FY 2001/2002, down 5% FY 2002/2003
- ◆ CDWR case threatens \$400,000

General Fund Major Revenues: State Shared Revenue

- ◆ **Primarily Motor Vehicle License Fees**
- ◆ **8.5% of General Fund revenues**
- ◆ **Growth in prior years robust due to booming economy**
- ◆ **Current revenue stable**
- ◆ **Project no growth for two years**

General Fund Major Revenues: Construction-Related

- ◆ 8.5% of General Fund revenue
- ◆ Construction Tax, Building Permits, Plan Check Fees
- ◆ Extraordinary gains in FY 1999/2000 and FY 2000/2001
- ◆ Project for FY 2001/2002 on track
- ◆ Forecast uses 6-year average

General Fund Major Revenues: Transient Occupancy Tax

- ◆ 6.86% of General Fund revenues
- ◆ Peak in FY 2000/2001
- ◆ Revenue reflects economic cycles
- ◆ Revenues down 40% in FY 2001/2002
- ◆ Project return to normal base FY 2002/2003 - FY 2006/2007

General Fund Position

- ◆ **Long-term Position and Fund Reserves**
 - Identify trends
 - Long-term picture different than short-term

General Fund Reserves

- ◆ All reserve requirements met
 - 20% contingency
 - 5% service level
- ◆ Non-Recurring Events
 - Senior Center
 - Animal Shelter
 - Fremont Pool
 - \$1.3 million remaining

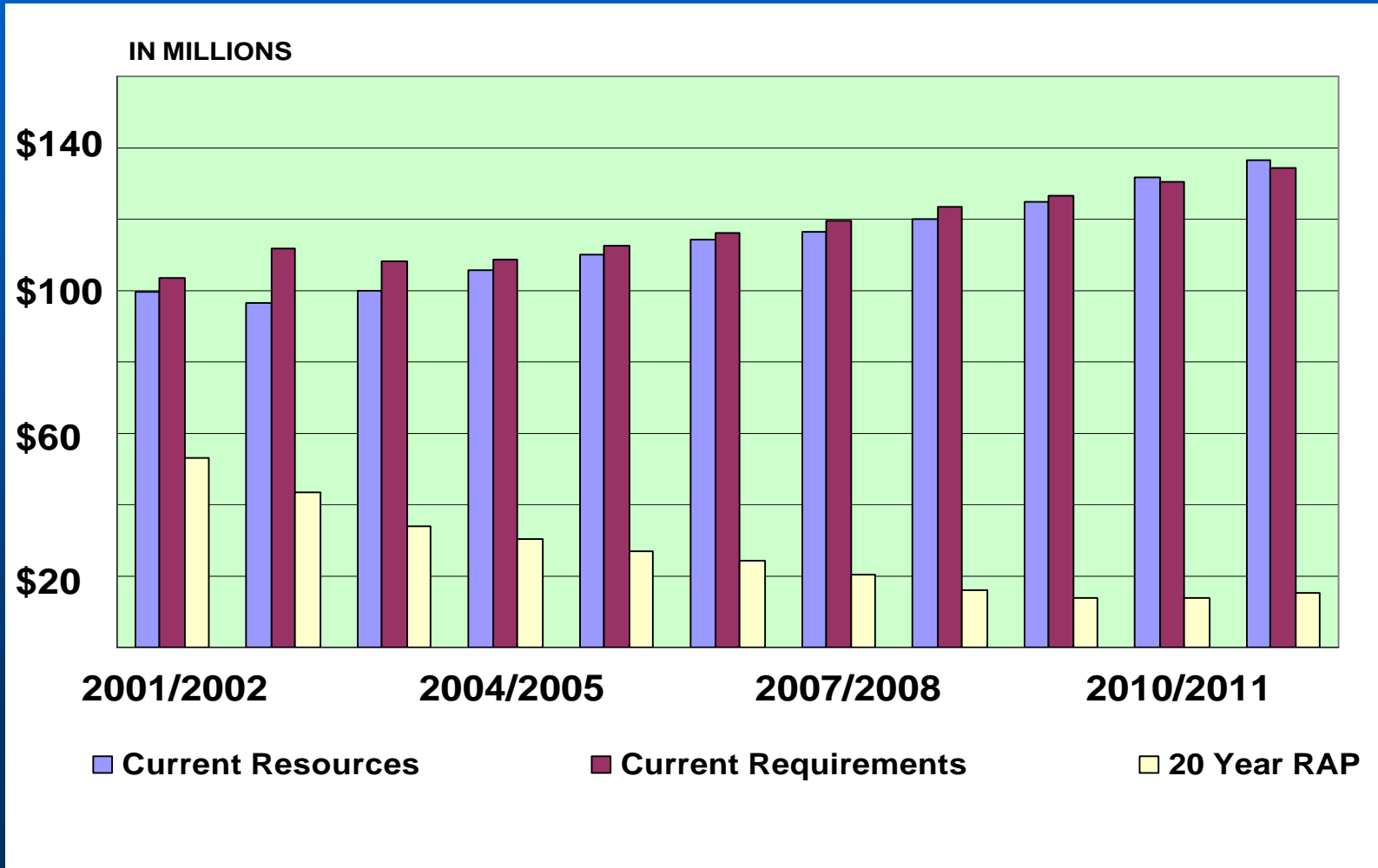
General Fund Reserves

- ◆ 20 Year RAP reserve levelizes economic cycles and plans for projects
- ◆ FY 2000/2001: 20 Year Rap \$59.6
- ◆ FY 2001/2002: 20 Year Rap \$52.9
- ◆ Reserve provides stability during downturn to maintain services

General Fund

Financial Picture

FY 2001/2002 to FY 2011/2012



General Fund Fiscal Uncertainties

- ◆ **Fiscal Uncertainties line item is expenditure in General Fund**
- ◆ **Reflects latitude in budget**
- ◆ **For FY 2002/2003 is \$900,000**
- ◆ **Increases with inflation over planning period**

General Fund Fiscal Position

- ◆ **Stable and balanced over 20 years**
- ◆ **Position of 20 Year RAP has worsened over first 8 years of plan**
 - Revenue position weakened
 - Expenditure pressures expanding
- ◆ **Long-range approach shields us from service level disruption**

Utilities Funds



Utility Funds

- ◆ **Increased Revenue Requirements**
 - Water Fund 4.5%
 - Wastewater Fund 4.0%
 - Solid Waste Fund 4.5%
- ◆ **Sunnyvale's rates remain 31% below average**

Water Supply and Distribution Fund

- ◆ **Cost of purchased water increases**
 - **San Francisco Water Department: 5% 1st year, 2-5% in future**
 - **Santa Clara Valley Water District: 2.4% 1st year, 4-8.3% in future**
 - **Uncertainties regarding rate projections**

Water Supply and Distribution Fund

- ◆ Hetch-Hetchy Infrastructure
- ◆ SFPUC estimates \$2.9 billion needed to fix system for users outside of San Francisco
- ◆ Improvements needed to ensure a safe and reliable water supply
- ◆ Sunnyvale water rates will increase as result

Wastewater Management Fund

- ◆ **Infrastructure Improvements**
- ◆ **\$12.5 million in new revenue bonds to fund the most pressing infrastructure projects.**
- ◆ **Decrease in Connection Fee Revenues**

Solid Waste Management Fund

- ◆ The fund is experiencing a 7% decrease in tonnage.
- ◆ Solid waste service fees are projected to be down by approximately \$1.6 million in FY 2001/2002

Community Recreation Fund



Community Recreation Fund

- ◆ Financial success, but self-sufficiency not an achievable or desired goal
- ◆ Staffing needs addressed in recommended budget
- ◆ Net increase in General Fund subsidy

Patent Library Fund



Patent Library Fund

- ◆ **Impact of the Internet**
- ◆ **Relocation of Sc[i]³ to the Main Library**
- ◆ **Steps taken to reduce cost of operations**
- ◆ **Net savings - \$2.5 million over 20-year plan**

Housing Fund



Housing Fund

- ◆ Comprised primarily of HOME grants and housing mitigation funds
- ◆ Housing mitigation receipts only reflects approved development
- ◆ Comprehensive strategy for allocation of housing mitigation funds

Internal Service Funds



General Services Fund

- ◆ **Aggregate Rental Rate Increase:
6.3% for FY 2002/2003**
- ◆ **Increase is primarily in two
programs:**
 - **Building Services Program**
 - **4.7% increase**
 - **Technology Services Program**
 - **14% increase**

Employee Benefits Fund

- ◆ \$4 million increase over current budget
- ◆ CalPERS investment loss means higher rates for employers
- ◆ Medical costs rising significantly, increases projected for the foreseeable future

Employee Benefits Fund

- ◆ Increasing workers' compensation claims
- ◆ Interdepartmental task force to study workers' compensation claims trend
- ◆ Cargill, et al. v. Metropolitan Water District

Major Project Efforts

Special Parks Funding

- ◆ **Proposition 12 Parks Bond**
- ◆ **Several park improvements funded in FY 2001/2002**
- ◆ **Skateboard Park Project budget modification**
- ◆ **Remaining funds to be programmed in project budget process**

Special Parks Funding

- ◆ **Proposition 40 Funds**
- ◆ **Additional \$1 million for park and open space projects**
 - **Historical Museum at Orchard Heritage Park**
 - **Yahoo! and SF Bay Trail Connector**
 - **Downtown Plaza Park**

Special Parks Funding

◆ Park Dedication Funds will help pay for:

- Downtown Plaza Park
- Fair Oaks Skateboard Park
- Ortega Park Playground Improvements
- Master Planning/Expansion of Murphy Park

Traffic and Transportation Funding

- ◆ **Santa Clara County Measure B Pavement Management Program**
- ◆ **\$7.7 million over five-year period**
- ◆ **12 capital projects funded to date, with 2 continuing in FY 2002/2003**
- ◆ **\$6.3 million has been spent or appropriated**

Traffic and Transportation Funding

- ◆ **State Traffic Congestion Relief Program**
- ◆ **City allocation of \$3 million**
 - **For FY 2002/2003, Traffic signals at :**
 - **Fremont and Wright Avenues**
 - **Lawrence Station Road and Elko Drive**

Traffic and Transportation Funding

◆ Proposition 42

- Extends Traffic Congestion Relief Program beginning in FY 2008/2009

Traffic and Transportation Funding

- ◆ **Traffic Mitigation Funds**
- ◆ **\$2.1 million in projects funded including:**
 - **Washington and Mathilda Intersection Improvement**
 - **Borregas Avenue Bicycle Corridor**
- ◆ **\$5 million of Cumulative Traffic Mitigation revenue available**

Strategies For Continued Success

Strategies for Continued Success

- ◆ **Closely review the financial impact of policy decisions**
- ◆ **Rely on multi-year financial planning in the decision making process**
 - **Emphasize analysis over short and long-term perspectives**

Strategies for Continued Success

- ◆ **Emphasize economic development**
 - **Downtown projects**
 - **Downtown Design Plan**

Strategies for Continued Success

- ◆ **Utilize cost-effective technologies to:**
 - **Increase productivity**
 - **Enhance customer satisfaction**
 - **Reduce the cost of service**

Closing Message

- ◆ **Short-term fiscal outlook reflects current economic downturn**
- ◆ **Services maintained, expanded**
- ◆ **Financial plans balanced for twenty years**

Closing Message

- ◆ **Two overarching issues may impact our fiscal stability**
 - Economic conditions
 - State Budget crisis
- ◆ **Committed to maintaining sound and responsible fiscal practices**
- ◆ **Planning and management systems will serve us well**

Thank You



Fiscal Year 2002/2003 Budget Workshop

Tuesday, May 21, 2002

City Council Chambers